

Message Text

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C O N F I D E N T I A L MANILA 12145

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SUBJECT: MERALCO REORGANIZATION

BEGIN SUMMARY: REORGANIZATION OF MERALCO SECURITIES CROP (HOLDING COMPANY FOR MANILA ELECTRIC CO. (MERALCO) INCLUDING REMOVAL OF THE LOPEZ FAMILY AND THEIR ASSOCIATES FROM CONTROL OF THE COMPANY AND REORDERING OF ITS TANGLED FINANCES, IS NOW UNDER WAY. A NEW BOARD OF DIRECTORS HAS BEEN CHOSEN WITH A MAJORITY OF MEMBERS CLOSE TO THE PALACE OR RESPECTED INDEPENDENTS. RESTRUCTURING OF THE COMPANY'S NEAR-TERM INDEBTEDNESS AND INCREASES IN POWER RATES ARE EXPECTED TO FOLLOW. PRINCIPAL OBJECTIVES OF REORGANIZATION APPEAR TO BE ELIMINATION OF LOPEZ FAMILY'S ECONOMIC POWER BASE AND RESTORATION OF OPERATIONAL EFFECTIVENESS AND FINANCIAL HEALTH OF THE NATION'S LARGEST UTILITY. REORGANIZATION WAS CARRIED OUT UNDER CLOSE SUPERVISION OF GOVERNOR ROMUALDEZ AND IT MAY BE ASSUMED THAT ROMUALDEZ AND MARCOS FAMILIES WILL CONTROL FOUNDATION BEING SET UP TO ACQUIRE LOPEZ FAMILY SHARES AND HAVE DECISIVE INFLUENCE ON MERALCO BOARD. END SUMMARY.

1. A SPECIAL MERALCO SECURITIES CORP (MSC) STOCK-HOLDERS MEETING OCTOBER 15, AT WHICH PROXIES REPRESENTED
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THE LOPEZ HOLDINGS OF OVER 37 PERCENT, ELECTED A NEW

BORAD OF DIRECTORS HEADED BY EMILIO ABELLO AND INCLUDING THE FOLLOWING MEMBERS: CESAR ZALAMEA, ANTONIO OZAETA, FELIMAN ZABLAN, ALEJANDRO MELCHOR, RAMON RAVANZO, COLONEL FRANCISCO GATMAITAN, WILFREDO TECSON, ANTONIO AYALA, FORENTINO FELICIANO AND PLACIDO MAPA, JR. OZAETA AND ZABLAN HAVE BEEN IMPORTANT EXECUTIVES AT MERALCO FOR YEARS. MELCHOR, RAVANZO AND GATMAITAN HAVE SPECIFIC INTERESTS IN ASSURING MERALCO ADHERENCE TO NATIONAL POWER POLICY. FELICIANO AND MAPA APPEAR TO HAVE BEEN BROUGHT IN BECAUSE OF THE FIVE PERCENT INTERNATIONAL FINANCE CORPORATION HOLDING IN MSC, THE SECOND LARGEST AFTER THE LOPEZ HOLDINGS. ZALAMEA, TECSON AND AYALA HAVE PLAYED KEY NEGOTIATING ROLES. PRESIDENT IS KNOWN TO HAVE CONSIDERABLE CONFIDENCE IN ZALAMEA, WHO WILL BE NAMED MERALCO VICE-CHAIRMAN. REORGANIZATION OF MERALCO CLOSELY SUPERVISED BY GOVERNOR ROMUALDEZ. ALTHOUGH BOARD MEMBERS UNQUESTIONABLY COMPETENT, THEY ARE EXPECTED TO PROVE RESPONSIVE TO WISHES OF PRESIDENT AND FIRST LADY.

2. BANKING AND BUSINESS SOURCES, INCLUDING MAJOR AMERICAN CREDITORS OF MSC, REPORT THAT MSC FINANCIAL POLICIES AND IRREGULAR PRACTICES COMBINED WITH GOP DENIAL OF FINANCIAL GUARANTEES AND ESSENTIAL RATE INCREASES HAD RESULTED IN NEAR INSOLVENCY WITH MANY INTERNATIONAL LOANS IN DEFAULT AND UNPAID TAXES OVER 50 MILLION PESOS. THEY NOTE THAT SHORT-TERM MONEY MARKET BORROWINGS AND OTHER LOANS IN DEFAULT MUST NOW BE RESTRUCTURED, AND MAY REQUIRE GUARANTY ARRANGEMENTS WITH GOVERNMENT FINANCIAL INSTITUTIONS. REFINANCING REQUIREMENTS OF MSC ARE ESTIMATED AT P200 MILLION AND MERALCO AT P300 MILLION. SERVICING DEBT AND MEETING HIGHER FUEL COSTS WILL REQUIRE 28 PERCENT RATE INCREASE.

3. VEHICLE FOR LOPEZ DIVESTMENT IS STILL UNNAMED FOUNDATION TO WHICH LOPEZ BROTHERS' SHARE (27.4 PERCENT OF MSC STOCK) WOULD BE TRANSFERRED. FOUNDATION REPORTEDLY WILL BE UNDER UMBRELLA OF NATIONAL SCIENCE DEVELOPMENT BOARD AND IS TO BE NONPROFIT. MARCOS-ROMUALDEZ DOMINATION OF FOUNDATION IS ASSUMED BUT USES CONFIDENTIAL

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TO WHICH THIS CONTROL WILL BE PUT STILL NOT ENTIRELY CLEAR.

4. OTHER LARGE SHAREHOLDERS, INCLUDING OTHER LOPEZ FAMILY MEMBERS, ARE TO DIVEST THEIR HOLDINGS OVER 10,000 SHARES. PRICE OF SHARES IS REPORTED TO BE P24, CONSIDERABLY LESS THAN THE CLAIMED P38 PER SHARE PRESENT NET WORTH OF MERALCO, BUT MORE THAN CURRENT

STOCK MARKET PRICE OF P20. PAYMENT WILL BEGIN IN TWO YEARS AND BE COMPLETED IN TEN YEARS. HOWEVER, A MERALCO EXECUTIVE STATES EARLY PAYMENTS WOULD BE USED TO PAY LOPEZ DEBTS AND FAMILY WOULD NOT START RECEIVING FUNDS UNTIL SIXTH YEAR. FAMILY ULTIMATELY EXPECTED RECOUP P18 MILLION, ALL OF WHICH WOULD HAVE TO BE USED FOR APPROVED INVESTMENTS IN THE PHILIPPINES.

5. COMMENT: THE PROSPECTIVE ENDING OF CONFRONTATION OVER MERALCO IMPROVES PROSPECTS THAT THE OPERATIONAL EFFECTIVENESS AND FINANCIAL HEALTH OF THE ORGANIZATION WILL BE RESTORED. THESE RESULTS ARE IMPORTANT TO THE COUNTRY'S ECONOMIC GROWTH AND ITS REPUTATION WITH FOREIGN CREDITORS. THE REPORTED TERMS FOR THE LOPEZ DISENGAGEMENT EFFECTIVELY ELIMINATE THE ABILITY OF THE LOPEZ FAMILY TO USE MERALCO RESOURCES TO MOUNT A POLITICAL CHALLENGE TO PRESIDENT AND MRS. MARCOS. WHETHER PRESIDENT OR MRS. MARCOS WILL ULTIMATELY OBTAIN SOME DIRECT PERSONAL FINANCIAL GAIN FROM THE TRANSACTION IS UNCLEAR, BUT THEIR CONTROL OVER THE NEW FOUNDATION AND THE INCOME STREAM IT WILL GENERATE ONCE MERALCO IS IN SHAPE AGAIN APPEARS FIRM.

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